



# Islamic Finance in Malaysia – Evolution & Current Development



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CENTRAL BANK OF MALAYSIA

# Malaysia's Holistic Approach to Islamic Finance



- Enactment of dedicated Acts for Islamic banking, takaful and Shariah compliant government funding
- Establishment of first full-fledged Islamic bank & first full-fledged takaful company

- Legislative amendments to allow window-concept
- Establishment of National Shariah Advisory Council to expedite the expansion of products and services
- Establishment of the Islamic interbank money market

- Overall objective: Creation of efficient, progressive and comprehensive Islamic financial system
- 4-pronged strategic approach
  - Regulatory framework development
  - Legal & Shariah Framework
  - Products and markets development
  - Enhancement of knowledge and expertise

- FSMP was launched
- Establishment of Islamic Financial Services Board
- Liberalise domestic Islamic finance sector
  - Allow entry of foreign players
  - Islamic subsidiaries
- Integrate with international Islamic finance sector

**Establishment of MIFC  
(Malaysia International  
Islamic Financial  
Centre)**

# A comprehensive Islamic financial system in Malaysia's financial system

*Diversity of players & wide range of products supported by legal, Shariah & regulatory framework*

## Governance

- **Legal & Regulatory**
  - Islamic Banking Act
  - Takaful Act
  - Government Funding Act
  - Capital Market Services Act
  - New foreign legal firm
- **Shariah Advisory Council**
  - Central Banking Act
- **Dispute Resolution**
  - Judicial system: dedicated high court
  - KL Regional Centre for Arbitration
  - Financial Mediation Bureau

## Financial Markets

- **Money Market**
  - Islamic interbank money market
  - Diverse short-term Islamic money market instruments
- **Capital Market**
  - 58% of outstanding bonds are sukuk
  - 88% Shariah counters
  - 143 Islamic unit trust fund



## Diversified Players

### Banking

- 17 Islamic banks
- 16 Islamic windows
- 3 International Islamic Banks
- 14 International Currency Business Units

### Takaful

- 8 takaful operators
- 4 retakaful operators
- 1 International Takaful Operator
- 7 International Currency Business Units

### Fund Management

- 9 licensed Islamic fund management companies
- 35 fund management companies with Islamic mandates

## Bank Negara Malaysia (BNM) Bill 2009

(Passed by the Parliament on 9 July 2009) “Awaiting Royal Assent”

### 1 Islamic Financial System

**Section 27:** The financial system shall consist of conventional & Islamic financial system

### 2 Shariah Advisory Council as highest authority

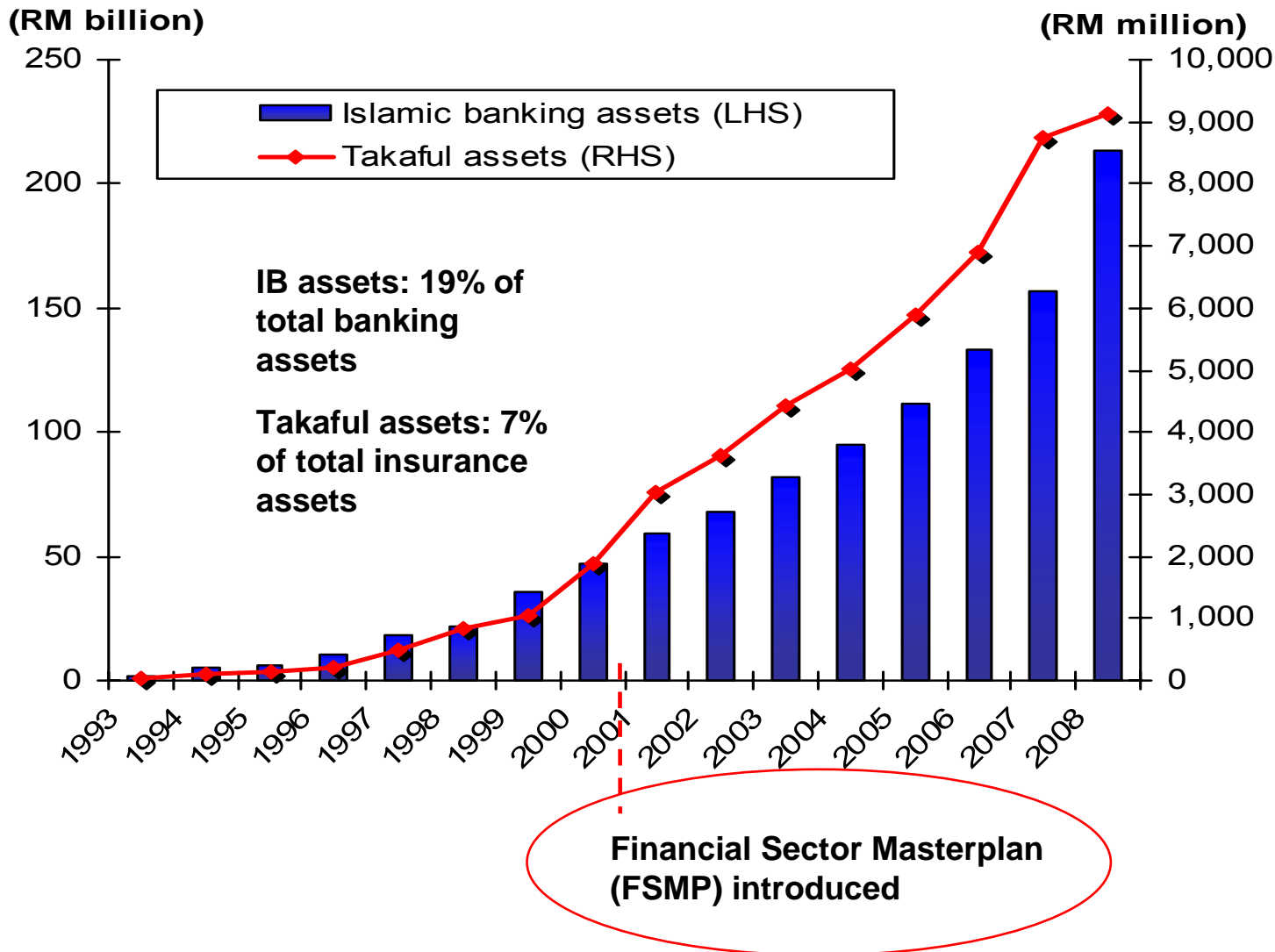
**Section 56(1):** The court or arbitrator shall take into account Published rulings of BNM’s Shariah Advisory Council (SAC) & to refer to any Shariah questions to the SAC for its ruling

**Section 57:** Rulings of SAC shall be binding on Islamic financial institutions, courts or arbitrators and these rulings are final

### 3 MIFC

**Section 68(1):** BNM has the role to develop Malaysia as an international financial centre

# Intense competition resulted in rapid growth



# Malaysia is recognised as a world class Islamic financial centre



# Malaysia has a well-developed sukuk market

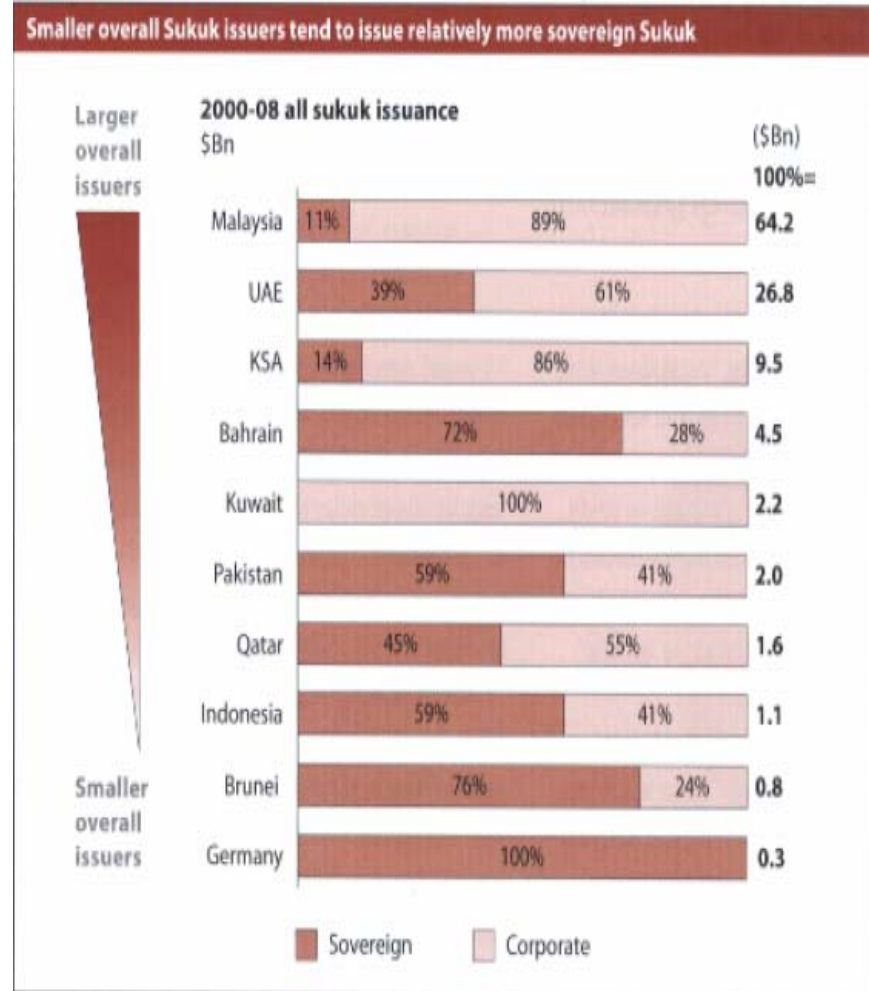
## Corporate sukuk

| <i>Sukuk</i> approved                                    | 2008   | Q1 2009  | Q2 2009  |
|--|--------|----------|----------|
| Number of <i>sukuk</i>                                   | 47     | 4        | 5        |
| Size of <i>sukuk</i> (RM billion)                        | 43.23  | 3.6      | 10.9     |
| Size of total bonds approved (RM billion)                | 139.99 | 10.6     | 22.9     |
| % of size of <i>sukuk</i> to total bonds approved        | 30.9%  | 34.0%    | 47.4%    |
| <i>Sukuk</i> issued*                                     | 2008   | Q1 2009  | Q2 2009  |
| Size of <i>sukuk</i> issued (RM billion)                 | 20.8   | 6.6      | 10.3     |
| % of <i>sukuk</i> issued to total bonds issued           | 43.7%  | 62.6%    | 52.0%    |
| <i>Sukuk</i> Outstanding                                 | 2008   | Mar 2009 | Jun 2009 |
| Size of outstanding <i>sukuk</i> (RM billion)            | 152.8  | 161.29   | 167.8    |
| % of outstanding <i>sukuk</i> to total outstanding bonds | 57%    | 57.5%    | 58.2%    |

\* includes the approval combination issuances (conventional bonds and *sukuk*).

Source: Malaysian ICM Bulletin, June09, SC

- 58% of outstanding corporate bond are sukuk
- Malaysia's outstanding sukuk (public & private) = USD66 billion @ end June 2009
  - 62% of total outstanding sukuk globally
- Malaysia as centre for innovative sukuk
- Active secondary sukuk market

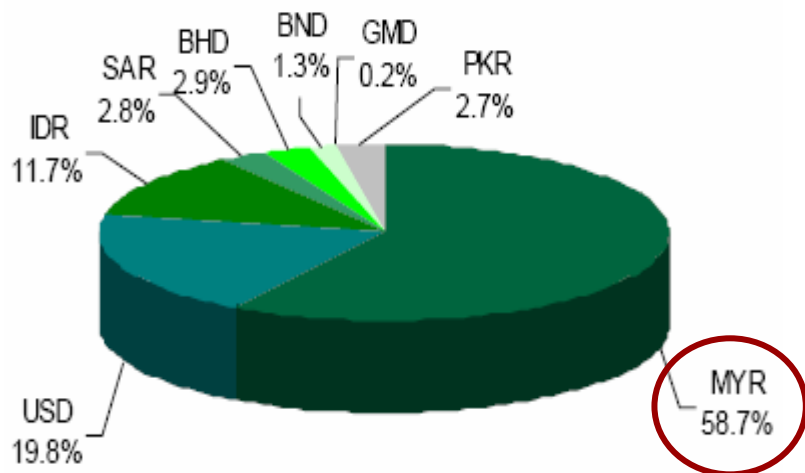


Source: IFS; Press reports; McKinsey & Company

- More than 80% of the sukuk are private sectors' sukuk

# Malaysia as a global leader in sukuk issuance

## Global sukuk Issued by currency (1H 09)



Source: Zawya, S&P, IFIS, Bloomberg, KFHR

| SUKUK BY COUNTRY | (12 Months)    | SEP 2008 – SEP 2009 |
|------------------|----------------|---------------------|
| Country          | Volume Issued  | Volume Outstanding  |
| Malaysia         | 29,934,684,676 | 17,677,227,503      |
| Indonesia        | 4,013,132,564  | 1,185,275,761       |
| Eurobond         | 2,150,000,000  | 2,150,000,000       |
| US               | 2,150,000,000  | 2,150,000,000       |
| Saudi Arabia     | 2,073,188,667  | 2,073,188,667       |
| Pakistan         | 348,311,445    | 348,311,445         |
| Bahrain          | 265,016,419    | 73,984,315          |
| Singapore        | 67,944,014     | 67,944,014          |
| Cayman Islands   | -              | -                   |
| UAE              | -              | -                   |
| Jersey           | -              | -                   |

Islamic Finance News, Sept 09

## Sukuk issuance

- Total global sukuk issued in 1H 09: USD7 billion (dropped by 35% y-o-y)
- Estimated global sukuk issuance for 2009: USD 10 – 18 billion
- Malaysia continued to lead in global sukuk issuance : 58.7% in 1H 09
- Sukuk issuance in Malaysia = RM26.6 billion (USD7.6 b) @ end Aug 09

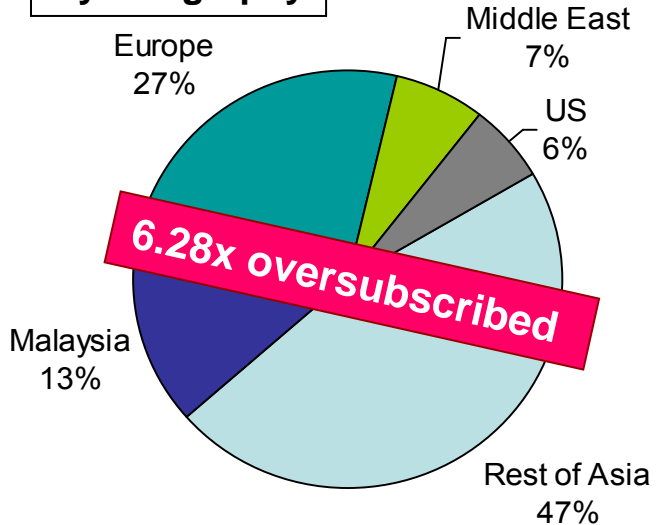
# Highlights - Petronas USD1.5 billion Emas Sukuk



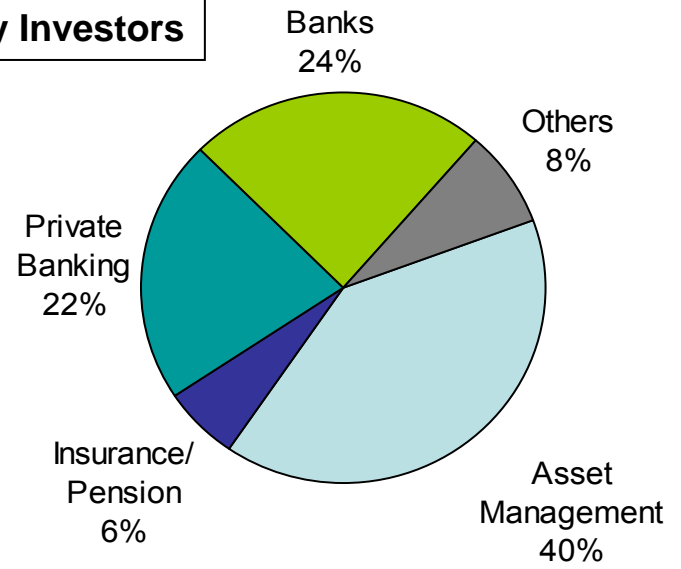
|                           |  |
|---------------------------|--|
| <b>Rating</b>             | A1 (S&P) /A- (Moody's)                   |
| <b>Issue Size</b>         | USD 1.5 billion                          |
| <b>Maturity</b>           | 5 years                                  |
| <b>Spread to Treasury</b> | 1.625 %                                  |
| <b>Yield</b>              | 4.279%                                   |
| <b>Issue Price</b>        | 99.871                                   |
| <b>Listing</b>            | Bursa Msia, Labuan S.E., Luxembourg S.E. |

- Oversubscription rate = 6.28x
- Amount upsized from USD1 billion to USD1.5 billion
- Shariah principle - Ijarah
- World's 1<sup>st</sup> USD corporate sukuk in '09
- Largest USD global sukuk since Dubai Ports issuance in '07
- Largest USD issuance (combined bonds & sukuk) of USD4.5 billion in Asia (ex-Japan) for '09
- 1<sup>st</sup> to be accorded Emas dollar sukuk

**By Geography**

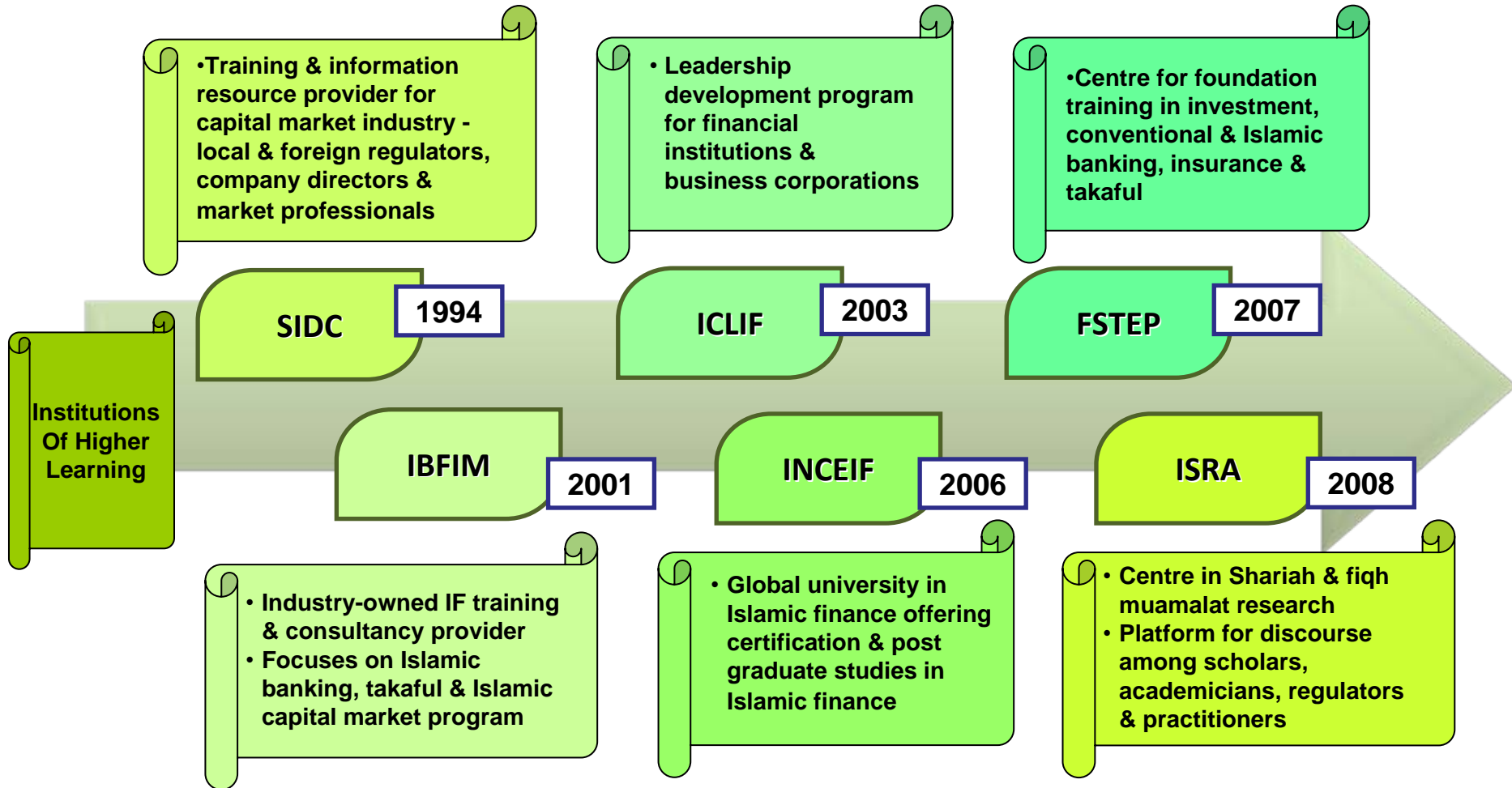


**By Investors**



# Malaysia's comprehensive human capital infrastructure

*Progressive efforts in developing human capital & thought leadership to support the development of Islamic finance*



- SIDC – Securities Industry Development Corporation
- IBFIM – Islamic Banking and Finance Institute Malaysia
- ICLIF – International Centre for Leadership in Finance

- INCEIF – International Centre for Education in Islamic Finance
- FSTEP – Financial Sector Talent Enrichment Program
- ISRA – International Shariah Research Academy for Islamic Finance

# Malaysia: Liberalisation in Islamic finance 2009

## Enhancing global inter-linkages and accelerating realisation of MIFC agenda...

REINFORCED BY HOLISTIC LIBERALISATION MEASURES

### 1 Issuance of new licenses

- Admission of up to 2 mega Islamic banks with minimum paid up capital of USD1 billion each
- Licensing of up to 2 new family takaful licenses

### 2 Increase in foreign equity limits

- Increase foreign equity limit of up to 70%:
  - Domestic Islamic banks subject to paid up capital of at least USD1 billion
  - Takaful companies
- **Scaling up of domestic players' operations & enhancing global inter-linkages**
- **Strengthening resilience & competitiveness of domestic players**
- **Reinforcing Malaysia's position as an international Islamic financial hub**
- **Enable banks to become global**

### 3 Granting operational flexibilities

- No restriction on bancatakaful arrangement between banking Institutions and foreign takaful companies
- No restriction on new branches nationwide by foreign takaful companies
- **Improving takaful penetration in the country**

### 4 Service infrastructure

- 5 stand alone international law firms may set up office in Malaysia
- **Support MIFC initiatives**

... value propositions to support MIFC agenda & tangible contributions to overall Malaysian economy are key requisites to liberalisation

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